PPK Post Privatization[1]

Restructuring & Corporate Governance

PPK's privatization had been considered very successful. Yet the company's performance had not shown improvement after privatization; it remained dangerously close to bankruptcy. The Supervisory Board and Management Board of the newly privatized company were at odds over several issues, including the company's financial position and the need for restructuring. The boards had to prepare for the company's first General Meeting of Shareholders.

New PPK Shareholders Take over the Board

After privatization, the new shareholders replaced the members of the supervisory board appointed by the GoT. Two board seats were held by SKK, the state-owned distribution company that ended up with 15% of the equity. Two board seats were also held by NTA, a domestic investor group, purchased 9.5% of the shares of PPK stock, making it the second largest shareholder in the company. A large US-based petrochemical company owned 5.2% and also held seats in the Supervisory Board. Other important shareholders included two Canadian Funds, each holding over 3% as did Bank Trondheim, a major creditor. Finally the IFC had a seat in the Board as did employees who had owned a small share in PPK since a grant made as part of the privatization process.

Management and Personnel

Mr. S.K. Reddy had held the post of managing director of PPK since 1976. It was Reddy who had taken the company into privatization. He managed the enterprise with an assertive, hierarchical style of management, involved himself in almost all decisions, and delegated little authority. The managing director had recently claimed to "know every employee in this company personally."

Reddy and his management team had been wary and resisted new shareholder efforts to restructure the company. But shortly after privatization, he abruptly resigned, just weeks before the first General Meeting. Mr. J. R. Sedgewick, who had also been one of PPK's leading managers since 1976, was appointed by the Supervisory Board to take his place.

The wages of PPK's more than 10,000 employees were 10% of Western based competitors in the industry. But productivity was very low.

There were two labor unions at PPK, representing over 65% of the labor force. The unions had initially opposed privatization. They were won over by a number of concessions, including shares and were granted representation in the Supervisory Board

Financial Performance

PPK's financial performance deteriorated after privatization took place. Profits failed to materialize after privatization. PPK's share price remained well below the company's initial offering price.

Cash flow was also very weak. Throughout the year accounts payable had increased faster than accounts receivable, pushing short-term debt up at a rapid rate. PPK creditors, including the banks holding the bulk of the company's increasing short-term debt, were growing visibly nervous with the

[1] This case was originally written by Constantin Abarbieritei and Tessie San Martin of IBM Business Consulting Services for the USAID Economic Growth Officers' Training Workshop, December 2002. It is to serve as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

company's persistent cash flow problems. Key factors in this declining performance seemed to be product pricing, product mix, and labor policies. In terms of PPK's labor policy, wages had been increased just prior to privatization by Mr. Reddy because "they deserved it." Workers were often kept on the payroll even when their functions were discontinued.

Discussion Questions

As a member of the new Supervisory Board you must find a way to improve the financial performance before cash flow problems become so acute that short-term creditors cut off the supply of operating funds, and PPK is forced to declare bankruptcy.

- What are PPK's restructuring challenges?
- How does PPK corporate governance structure help or hinder its ability to meet these restructuring challenges?
- How does corporate governance support capital markets development?